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SUBJECT: UAE REAL ESTATE: DOWN BUT NOT OUT

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¶1. (SBU) Summary: That the UAE experienced a real estate boom through early 2008 is well known. Equally well known is that the Emirates experience a subsequent bust driven in part by the world financial crisis. In response, UAE federal and local governments strengthened much needed real estate regulations, and developers consolidated and cut back projects. The market is now seeing promising indications of stabilization, although concerns remain. Analysts say Gulf investors remain interested in the UAE property market, while local residents continue to look for real estate bargains. End Summary.

The Boom

¶2. (SBU) During 2007 and early 2008, the prices of UAE real estate increased significantly, shooting up almost 300 percent. (Note: Much of this growth was driven by new policies allowing foreigners to buy dwellings, but not the underlying land. End Note.) The spectacular returns led to significant speculation (in the form of rapid purchase and resale known as "flipping") and investments by many who had no intention of living in the properties they bought. Strong economic growth led to a demand outstripping available supply (especially in Abu Dhabi) driving up prices, according to Redha Maslam, Director of Tharwat Economic Consultancy Company. Residential and commercial rent in all emirates, particularly Abu Dhabi and Dubai, rose significantly, crossing 100 percent for some apartments. The UAEG passed laws to cap annual rent increase at five percent in Abu Dhabi and in Dubai, but little regulation of property sales existed.

The Bust

¶3. (SBU) According to Property Wire report, UAE real estate prices have declined 65 percent from September 2008. Owners, unable to secure loans or now unemployed, refused to make installment payments, asked for revised payment plans or just abandoned their down payments. Many developers were unable to continue construction or pay subcontractors for completed work. Morgan Stanley estimates that more than USD 260 billion in projects have been cancelled or postponed in the past year. Market studies indicate that rental prices have now fallen to 2006 levels in Dubai, and early 2008 prices in Abu Dhabi. Dubai's Real Estate Regulatory Authority (RERA) statistics indicate that the average annual rent for a studio in Dubai Marina now ranges from USD 17,697 to USD 20,419, from a peak of USD 24,503. A one-bedroom apartment in the Greens development now has declined to USD 24,503 from USD 35,383. Expatriates working in Abu Dhabi are increasingly commuting from cheaper rentals in Dubai, as the capital's rental demand still outstrips supply (Ref B).

GOVERNMENT RESPONSE

14. (SBU) As prices collapsed, government officials moved swiftly to regulate and support the real estate market. The Dubai Land Department issued an amended law (No. 9 of 2009) to help developers complete projects. The retroactive law ties buyer refunds to the project completion, making it harder for investors to exit properties near completion. Amendments stipulate that in cases where developers have completed at least 80 percent of construction, a purchaser who defaults will lose all the money paid. Abu Dhabi and Ras Al Khaimah are also creating real estate regulatory authorities, modeled after Dubai's RERA, to regulate the sector, particularly "off-plan" developments (Ref A).

15. (SBU) In an effort to attract new investors and retain current owners, the UAE Ministry of Interior finally clarified in May that foreigners who own developed real estate (valued at over USD 270,000 (AED 1 million) can enter the country on a multiple entry visa and stay up to a maximum of six months. While some investors claim other requirements, such as having a fixed monthly income of almost USD 2,723 (AED 10,000) are excessive, clear regulations are appreciated. The federal and local governments are also encouraging mortgage industry growth to spur new purchases. Historically, few Emirati properties were financed with a mortgage, as nationals received government assistance and expatriates were not allowed to buy real estate (prior to the recent liberalization). The industry was tarnished by the near bankruptcy of two of the UAE's largest mortgage lenders, Amlak and Tamweel, who have been rumored to be slotted for merger, perhaps with the newly created Emirates Development Bank. However, the CEO of the new Abu Dhabi Finance Company told EconOff that consumer interest in his products remains high.

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Signs of Recovery

16. (SBU) As summer approaches, reports indicate signs of stabilization -- and even recovery. Press reports indicate that Abu Dhabi rents have risen as much as 20 percent, while Dubai property sales rose six percent in recent weeks. A recent HSBC survey shows real estate prices rose four percent in April and five percent in May 2009, but warned that it is too early to call it a trend. According to the report, the stabilization in pricing appears to be the result of several factors, including: low base prices, improving liquidity, declining mortgage rates, attractive rental yields, robust volumes, and improving consumer confidence. Foreign investors also seem to be back in the market, and the majority of transactions are being conducted without financing. Industry analysts report Gulf investors continue to have strong interest in UAE real estate, particularly in Dubai, which remains a popular regional destination for business and tourism. One Dubai business man told us capital flight from Iran and Pakistan has also prompted significant new investment in Dubai in the past 1-2 months.

17. (SBU) However, others remain pessimistic. A senior Abu Dhabi government official believes real estate prices may continue to decline through 2010. Faysal Urfali, General Manager of International Development Company (IDC), a leading Abu Dhabi business group, told EconAssistant that he did not expect the Dubai real estate sector to fully recover before late 2010. The unrealistic prices of the boom have fallen, but demand is still slowing. In contrast, properties in Abu Dhabi are still demanded by foreigners, even in areas which are not yet allotted for foreign ownership.

18. (SBU) Comment: While prices appear to be stabilizing, most investors recognize that the dizzying returns of 2007 are gone for good. Dubai's focus has clearly shifted from real estate to core business in logistics and services. Abu Dhabi's economic development plan targets diversification in non-construction sectors, particularly industry and manufacturing. The new line from many Emirati business and political leaders is that the worst is over, but the full extent of real estate losses -- and related financial sector repercussions - likely remains to be seen. End

Comment.
OLSON